The House of Protection

Griffin M. Lovelace

THE HOUSE OF PROTECTION

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Edited By
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The HOUSE OF PROTECTION

BY

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THE HOUSE OF PROTECTION

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E-H

This book is dedicated to those life underwriters who are guided in their work by an earnest desire to help husbands and fathers with one of their greatest problems; viz., to *guarantee,* after their death, living expenses to their wives and children.

CONTENTS

Part I

CHAP.		PAGE
	Preface	ix
I.	Only Brick and Mortar	3
II.	Building on the Sand	11
III.	Authoritative Example and Advice . . .	75
IV.	Superiority of Life-Insurance Management of Beneficiaries' Funds	83
V.	Summary of Advantages of Income Settlements	91
VI.	A Picture of Life-Insurance Service . .	97
VII.	The House of Protection	107

Part II

I.	How Much Life Insurance Should I Carry?	111

PREFACE

The purpose of this book is to answer two questions: (1) "How can I make sure that my life insurance will provide the protection which I desire?" and (2) "How shall I determine the amount of life insurance I should carry?"

Both questions are of vital importance to every husband and father; yet there are comparatively few men who have solved either problem satisfactorily. Perhaps the following pages may be of assistance both to life underwriters and to clients by pointing out a very simple way of arriving at the correct amount of insurance required in a given case and by making clear the necessity of using income settlements as the only means of guaranteeing the fulfillment of the insured's plans to provide living expenses for his family.

The author wishes to thank cordially

the many persons who have helped him by encouragement and suggestion—especially the Carnegie Tech students—and those who have assisted in the revision of the manuscript. It would be difficult to express adequately his debt to his friend and former colleague, Dr. John A. Stevenson, for the generous and helpful co-operation which he has given at all times.

G. M. L.

Carnegie Institute of Technology,
Pittsburgh, Pennsylvania.
June 1, 1921.

Part I

I

ONLY BRICK AND MORTAR

"A great Estate left to an Heir is as a Lure to all the Birds of Prey round about to seize upon him, if he be not the better stablished in Years and Judgment."—Lord Bacon.

THE HOUSE OF PROTECTION

I

ONLY BRICK AND MORTAR

STRANGE as it may seem, it is a fact that the average husband, or father, has no definite idea of how his life insurance is to support his wife and children. In a vague way he thinks that he has provided for them in the event of his premature death. He cheerfully undertakes to deposit premium-savings, even as long as he lives, in order to secure this provision, perhaps making great sacrifices in the effort to carry out his plan, and he feels a deep satisfaction at the thought that his family is "protected." But how are they protected? Indeed, what is "protection"?

According to the dictionary, protection

is, of course, that which protects—*i.e.*, which saves or keeps from harm.

What is the danger or harm from which life insurance is intended to shield a man's wife and children after his death?

It is the lack of food, shelter, clothing, medical care, education, and reasonable comforts, either for life or for a specified period.

Does life insurance, as it is arranged in the average case, really protect the beneficiaries against the lack of the necessaries and reasonable comforts of life to such an extent and for such a period as the insurance premiums are capable of providing? Unfortunately, there is no doubt as to the answer to this question. It is emphatically "no." The average man is not actually guaranteeing protection to his family, as he thinks he is.

Suppose you went to a building contractor and said, "I want you to build me a house."

"What kind of a house?"

"Well," you say, "a Colonial, brick house, with ten rooms, three baths, and a sun porch, slate roof, hardwood trim

and floors, open plumbing, and hot-water heat."

Some time later he calls you on the telephone and says, "I'll drive you out to look at your new house."

You motor out to a beautiful section of the city and stop in the midst of a group of handsome homes. The contractor says: "Here's your house. Just what you ordered." But you are puzzled. There *isn't* any house opposite the place where you have parked the car.

"*Where* is my house?" you ask.

"Right here," he answers, pointing at the lot before which you have stopped.

"But there isn't any house there," you exclaim, in amazement. "There is nothing on that lot but a heap of bricks, barrels of lime, lumber, kegs of nails, building hardware, slate shingles, plumbing supplies, and cans of paint."

"Well, I call that a house," says the builder.

"A house!" you exclaim. "Why, that is only the material out of which a house *may* be built."

Life-insurance money left in a lump sum

is not protection. The lump sum is only the brick and mortar of the House of Protection.

And yet every day, all up and down this country, life-insurance policies, intended to furnish permanent support for widows and children, are being written with lump-sum settlements, and men are saying to themselves with satisfaction, "I have provided my family *protection* in event of my premature death."

But have we really secured "protection" for our families when we arrange for a policy of $10,000 or $50,000 or $100,000, payable in a lump sum? Possibly—but not certainly—not even probably.

A lump sum furnishes merely that which *may possibly* secure permanent protection —not *will*, but *may*. A lump sum will provide permanent protection *if* it is invested and reinvested throughout the lifetime of the beneficiary in such a way that the money is always safe and always produces a fair rate of interest or profit. But the husband, or father, cannot be assured that his widow will be able to invest the money safely and profitably throughout her lifetime.

In providing a cash settlement we have furnished only the brick and mortar of the House of Protection. *To build the House of Protection is left to our beneficiaries.*

II

BUILDING ON THE SAND

. . . a foolish man, which built his house upon the sand;

And the rain descended, and the floods came, and the winds blew, and beat upon that house; and it fell; and great was the fall of it.

—MATTHEW vii: 26, 27.

II

BUILDING ON THE SAND

SO many beneficiaries fail to build a House of Protection out of the materials bequeathed to them. It is a difficult task. They are not trained in this highly specialized kind of work. It is no wonder, therefore, that they fail at the most vital point in their construction—at the foundation.

The House of Protection must be built upon a foundation so strong and deep that it cannot be shaken or destroyed by investment storms.

The beneficiary doesn't understand this; and, though she be ever so conscientious, she may, through ignorance, build her house upon the sand. Or she may be venturesome and say: "I'll take a chance. I'll build my house upon the sand and perhaps no winds or floods will come my way." Occasionally she wins—the winds

and the floods chance not to come her way.

But too often her house stands in the path of the storm and is wrecked beyond repair.

. . . .

What are some of the specific things that may happen to the lump sum and destroy the protection which the husband or father thought he had secured to his family?

Living on the Principal

When the husband, or father, dies, the beneficiary receives a check from the "Home Office" of the life insurance company and deposits it in her bank. She settles outstanding bills by checking on the account, and then, if she understands that the money should be invested carefully, she waits, seeking the right place for it. Thus, the insurance funds do not begin to earn interest immediately, but lie idle in the bank and are checked against from week to week, or month to month, in order to meet current expenses. The

widow may not realize the importance of putting her capital to work. She has such a lot of money in the bank, more, perhaps, than her husband ever had in his bank account; it may not occur to her that her money will ever give out. It is such an easy way to live; and many a beneficiary has gone on in this manner, spending at the old rate, as long as the money lasted, instead of investing and using only the income. Perhaps she is afraid to invest her money, and so lives from month to month, or even from year to year, drawing on her capital until it is materially impaired or even exhausted.

Where Shall She Invest Her Money?

The widow may understand the importance of putting her money to work immediately in order that she may receive an income from it. How is she to invest it safely as well as profitably? Can you imagine the anxiety with which she faces this problem? And well she may, for she has had little or no experience in investing money. What funds she and her

husband had were always managed by him personally; and she probably remembers that sometimes his investments were not successful. If she knew how few men, even of long business experience, are able to invest and reinvest money over a long period of time without loss, she would be even more anxious than she is. If she knew that nearly every rich man leaves a lot of worthless securities at his death, she would feel even more keenly that she is burdened with a very grave responsibility, a greater financial responsibility than her husband ever assumed; for he was never obliged to depend for his living upon his success in keeping a restricted amount of money permanently invested with safety and profit.

Among the first to offer assistance in her dilemma may be relatives or friends; and if she gets advice from several of them, she will be surprised to see how thoroughly they disagree as to what is "the only thing" for her to do with her money. Even if every one of them is sincere in wishing to be of real assistance to her, how is she to know which suggestion to

accept or that any one of them is safe to follow?

Some years ago *The World's Work* published an article entitled "The Lady and Her Legacy," which told the story of a woman who sought advice for the investment of an inheritance of $10,000. She first tried to place the money in the savings bank, which refused to take so large a sum. Then she called on her clergyman, who advised her to invest in the bonds of a boys' school for which he was trying to raise funds for a new building. Next she was advised by her uncle to put one half of her money in local real estate and the other half in four well-known copper mines. A second cousin, a maiden lady, advised her to "give one tenth to the Lord," but offered no suggestion for the other nine tenths. An elderly man, a close friend of her father's, recommended cotton-mill stocks. She answered the advertisement of a "banking" house which advertised in her church paper, and received a great quantity of mail suggesting investments concerning which she wrote to a financial journal, which warned her

not to buy. Fortunately, she went at last to the president of a bank, who gave her good advice, which she followed. But many women would have parted with their money before they reached the bank president.

Loaning to Relatives

Relatives are not always disinterested. Sometimes they offer to take the insurance money and invest it in their own business or in some enterprise in which they are "going to make a lot of money." The author recalls a case in which a policy was paid to the wife of a young man who died shortly after he was insured. When the widow was notified that the insurance check had arrived, she appeared in the life-insurance office, accompanied by her brother. The agent started to give her the check, but the brother put out his hand to take it. When the agent hesitated and looked from one to the other, questioningly, the brother said, "My sister wants to invest her money immediately and knows how hard it is to find a good

investment. Fortunately for her, I was just on the point of borrowing money to put into my business, and I have offered to help her out by borrowing from her and paying her a good rate of interest." We know that, as a rule, such loans to relatives prove to be unsafe for the widow and her children.

A widow whose husband had left her a substantial amount of insurance went with her little children to live in her father's home. The father was an inventor, who had always earned a good income, but had never succeeded in making any of his inventions pay in a large way. His best patents had always been sold to manufacturers, while those in which he had a royalty had not yielded large profits.

At the time of his son-in-law's death he had just perfected an invention which seemed to him to promise greater success than any other device he had ever patented. He had decided to manufacture the article himself, hoping to secure all profits to himself and make enough money so that he might retire, for his health was no

longer good. He had very little capital and almost no credit on a commercial scale. All possibilities of help were just about exhausted when his son-in-law died and his daughter took her children and "went home" to live, as so many women do after their husbands' deaths.

It may have occurred to the father that, if his daughter would lend him her insurance money, he could go ahead with his plans; but he never mentioned this idea to her. Although he had faith in his invention, he doubtless realized that the money left for the support of his daughter and grandchildren was not to be risked in such an enterprise as his. But his wife thought differently. She urged him to speak to their daughter, and, when he refused, did so herself. The idea appealed strongly to the daughter, who was devoted to her father. She went to him, insisted that he allow her to invest in his company, and, when he at first refused, was deeply offended. In the end he yielded. Thirty thousand dollars of the money her husband had left her went into the new venture, which failed. Her father was a

skillful inventor, but not a manufacturer or a business man.

One of the best insurance men in the country told the author, some years ago, of a conversation he had with his wife during the evening of the day on which he had arranged for the first time to have some of his insurance settled on an income plan. They sat in their living room, where their little ones were playing on the floor. Finally he said, "My dear, I want you to understand that, in arranging this income settlement, I am merely trying to guard you against every possible thing which might bring any risk of your losing the little I can provide for you and the children. As an example, suppose that our boy there were grown up and doing well in business and that an opportunity came to him to start in business for himself, or to buy an interest in some business; the essential thing would be to find capital. Being young, he would not have had time to accumulate very much or to establish much credit; and what would be more natural than that he should come to you and that you should put some of

your capital into his venture? He would have great confidence in his scheme, and you would have confidence in him; if his mother wouldn't, who would? You might even feel that you wanted to be a real partner in his first business undertaking. Considering the limited size of your capital and the needs of yourself and the other children, it would be most unwise to lend our boy the money. But could you, would you, refuse to help him? Probably not. And I want to arrange things in such a way that there can be no struggle between the maternal instinct and your judgment, and so that the boy will know you have no funds to put into his schemes. If I live long enough and prosper, I can help him, too. But the insurance I now have is for the very definite purpose of guaranteeing you a living as long as you live and of enabling you to keep the family together and give the children a good education."

That man was a wise father. He knew from what he had seen of the working out of life-insurance plans that even those who are nearest and dearest to one's wife

may be the cause of the loss of the lump sum or cash settlement.

Why Little Dorrit Lost a Legacy

A passage from Charles Dickens's wonderful story, *Little Dorrit*, well illustrates the fact that women are likely to be easily influenced to part with their money by persons for whom they feel a deep affection—"say, a brother, a father, say, a husband," as the turnkey puts it. The reader will recall that Little Dorrit's father was confined for debt in the Marshalsea Prison, that Little Dorrit was born and grew up there, and that the turnkey became her godfather.

"In those early days the turnkey first began profoundly to consider a question which cost him so much mental labor that it remained undetermined on the day of his death. He decided to will and bequeath his little property of savings to his godchild and the point arose how it could be so 'tied up' that only she should have the benefit of it. His experience on the lock gave him such an acute per-

ception of the enormous difficulty of 'tying up' money with any approach to tightness, and contrariwise of the remarkable ease with which it could get loose, that through a series of years he regularly propounded the knotty point to every new insolvent agent and other professional gentleman who passed in and out.

"'Supposing,' he would say, stating the case with his key on the professional gentleman's waistcoat—'supposing a man wanted to leave his property to a young female and wanted to tie it up so that nobody else could ever be able to make a grab at it, how would you tie up that property?'

"'Settle it strictly on herself,' the professional gentleman would complacently answer.

"'But look here,' quoth the turnkey, 'supposing she had, say, a brother, a father, say, a husband, who would be likely to make a grab at that property when she came into it—how about that?'

"'It would be settled on herself and they would have no more legal claim on it than you,' would be the professional answer.

"'Stop a bit,' said the turnkey. '*Supposing she was tender hearted and they came over her. Where is your law for tying it up then?*'

"The deepest character whom the turnkey sounded was unable to produce his law for tying such a knot as that."

This quotation from *Little Dorrit* reminds us that the problem we are discussing is by no means new. So does the selection from Lord Bacon in the front of this book. No doubt a thorough search in ancient literature would disclose passages confirming our belief that this is a problem as old as civilization itself.

Helping Needy Relatives

There is nearly always some member of the beneficiary's family who is in trouble and needs money. The widow's father or mother or a sister may be in great need of help. Perhaps one of them is ill and should have surgical attention or a change of climate; or they may have accumulated debts which are pressing and which make

them all unhappy, including the widowed daughter, or sister, herself. A mortgage on the old home, with an accumulation of unpaid interest, may threaten foreclosure and loss of the family hearthstone with all its old associations. How can the widowed daughter, or sister, with $5,000, or $10,000, or $20,000 of insurance money in the bank view such distress among her loved ones and not help them? Even though she realizes that this money was provided for the specific purpose of furnishing living expenses for herself and her children, is it strange that she yields to her good impulses and goes to the rescue?

A Seattle life underwriter gives an account of a widow who disbursed the greater part of her money to members of her family and of the family of her husband, at whose death she had received $50,000 of insurance in a single sum. Apparently she had no idea of the value of money; for she first gave $10,000 to her father and mother, then $10,000 to her husband's father and mother, and loaned $10,000 to her brother-in-law, with-

out security of any kind, not even a personal note or receipt for the money. These acts of generosity were followed by an orgy of shopping. She bought beautiful fur coats and silk clothes, rented a fine flat and purchased an automobile.

Eleven months after her husband's death she had only $12,000 left out of the $50,000 which her husband had provided. Yet when he bought the insurance he probably thought he had secured "protection" for his wife.

Are Good Investments Permanently Safe?

However, there may be no such dangers as those just mentioned. The widow may have good judgment, and she may go to persons capable of giving good advice and place her money in good investments. Is her money safe then? No doubt it is safe temporarily. But let us observe her investment through several years.

Suppose she bought real estate. Have real-estate values changed? Yes, some real estate has gone up; some has depreciated

in market value, and she happens to have her money in the latter. Ten years ago, when she bought this little apartment house, it was in a fine section of the city. But there has been a new real-estate development. People are now buying in another direction; a grocery store has been started next door and a big garage put up across the street. Desirable tenants are moving away. Rental prices are going down. Her income shrinks. She thinks of selling, but the sale price is down also.

Or suppose she lives in a nice, clean little New England village. Twenty years ago her husband died. She deposited her insurance check in the bank and went to talk with two leading citizens. Both of them have made money and have money. Nothing succeeds without them and everything they touch prospers. Both are absolutely honest. Both are her friends; they loved her husband and would do for his widow as for their own children.

"What shall I do with my money?" she asks.

They think the matter over carefully,

then discuss it, and find they agree on two well-known railroad stocks. No other investment seems to meet so satisfactorily the necessary combination of safety and profit. All through the East conservative estates hold some of these stocks. Reliable financial corporations hold large blocks of them. Bankers recommend them. They seem as sound as anything can be.

Time goes by and the advice of her friends seems to have been good. She receives high dividends. The market price remains satisfactory. Nearly every one with whom she discusses her investment compliments her. Then there are whisperings. The confidence of investors seems to have been shaken. Stock exchange quotations go down. There are newspaper accounts of financial difficulties. Finally a dividend is passed and her income suffers. As this sentence is being written, these stocks are both quoted at less than $20, and haven't paid a dividend in several years.

At the time the financial difficulties of these companies became known, a promi-

nent newspaper commented substantially as follows: "For years frugal people have been putting their savings into these stocks. When a New Englander in active business wanted to lay aside money to protect his family in case of financial misfortune, he was very apt to put it into the stock of one or both of these roads. How real a thing the interest of 'widows and orphans' in these companies has become is shown by the following figures:

"One company has about twenty-four thousand stockholders. *Of this number 58.9 per cent are women, or trusts or guardianships for women or children.* The other company has over eight thousand stockholders; *of these 62.2 per cent are women and children.*

"When corporations like these get into serious financial difficulties, the number of people affected is very large. The worry and loss suffered by many thousands of women as a result of the shrinkage of value in these stocks is perhaps the worst feature of what has been in many years one of the most amazing chapters in the history of American high finance."

In the monthly publication of a prominent life insurance company, one of its actuaries tells of a fund of $31,500 which was invested in 150 shares of one of the above-mentioned companies in 1901 at $210 a share. The total earnings paid in the 20 years which have elapsed amount to $18,496.95 (including the sale of some rights). A similar sum left on deposit by a beneficiary at the same time (1901) has paid interest of $27,247, the excess of the life insurance company's payments being $8,750.05. To-day the stock is paying no dividends and, if sold, would be worth only $2,250, a loss of 93 per cent of the capital originally invested. On the other hand, the life insurance funds are still worth $31,500 in cash and are earning over 4½ per cent interest.

The stocks discussed above may eventually recover and again pay satisfactory dividends, as the properties of both companies are excellent. But this possibility offers little consolation to women and children whose incomes have been seriously affected by the loss of dividends.

Many apparently good investments have

turned out even worse. Says a financial writer: "*I do not know of a single security listed on the stock exchange and dealt in largely in an open market which yields as much as 6 per cent and which at the same time can be called absolutely safe.*"

Ida M. Tarbell quotes the late Standard Oil official, Henry H. Rogers, as saying: "I had $1,000 sent me to-day from a woman who wants 20 per cent. *I cannot place it so that I can be sure she will have even 6 per cent permanently.*"

Isn't it clear that even the widow who is wise and seeks and gets good advice and buys sound real estate or stocks, or even bonds, *may* through changed conditions find her income reduced and her principal impaired? Such a result is not inevitable. But it is possible; indeed, it happens in thousands and thousands of cases.

Reduction of Dividends a Calamity for the Widow

Have you ever read market reports with a life-insurance eye? Here are a

few quotations from brokers' letters which the author has recently received:

"At the directors' meeting held April 6, 1921, the directors of the —— Company voted to pass the quarterly dividend of fifty cents a share due on the 2,000,000 shares of capital stock of $50 par value, at this time."

"*Dividends Reduced by —— Motor Company.* The directors of the —— Motor company at a meeting held on February 4th reduced the dividend of seventy-five cents to fifty cents a share. . . . The reduction was voted in view of the present unsettled conditions and in no way reflects on the financial condition of the company."

—"*Co. in Good Financial Condition.* . . . The action of the —— directorate in omitting its dividend in 1919 was evidently a far-sighted movement and one that will eventually be to the advantage of stockholders."

"*—— Copper.* . . . The reason given for reduction in the dividend is a logical one."

All the companies mentioned above are well known. Except for lack of space we

could add many similar quotations noted within a few days.

A man leaves his family an estate composed often of these same stocks and others of like kind, or he leaves substantial insurance which his beneficiaries invest in such companies (good concerns, offering satisfactory investments for certain business men); you can easily imagine the effect of such announcement on the widow and children. "Logical reasons" do not satisfy when their income is cut. The fact that the reduction in dividends is a "far-sighted movement" on the part of the board of directors, or that the "reduction in no way reflects on the financial condition of the company," does not comfort the widow who was counting on these dividends to pay her last month's bills.

The financial columns of the newspapers have just announced a 33⅓-per-cent cut in the dividends of one of the greatest and most substantial corporations in the United States. It is considered a model of its kind. Of a total of about 130,000 stockholders, a New York news-

paper correspondent states that over 60,000 are women. This reduction must cause thousands of these women much anxiety or even actual discomfort or distress. The conditions causing a reduction in the dividend are beyond the control of the very able management of the corporation; the general economic situation of the country is at fault.

Standard stocks, in which life-insurance proceeds are invested, may reduce or suspend dividend payments. Even the temporary loss of income is a calamity to which the widow and children should not be subjected, if there is a possible way of avoiding it.

Trying to Win Big Profits

And there are many women who take long chances with their money, hoping to make the small insurance fund yield large profits. They find it hard to make ends meet. They have heard of people who have made fortunes by risking a small capital. They think, unless one has the courage to take a chance, one can't expect ever to be rich. Even Ponzi made money

for some people. Gas and oil, copper mines, and land speculation seem legitimate, and newspapers in their home towns are advertising these opportunities. Surely such advertisements would not be printed if there were any great risk involved. And so they take a chance, with the usual result.

Speculative Investments

About two years ago the newspapers of western Pennsylvania were full of advertisements of the fortunes that were being made in the new gas and oil field at McKeesport, Pennsylvania. To-day little is heard of the results, although, according to an estimate made by Mr. J. French Robinson, a geologist who has specialized in petroleum and natural gas, approximately $30,000,000 was invested in the organization of companies in that field within a year. Mr. Robinson told the author that he believed the total value of the products of the McKeesport gas field, past and future, would not greatly exceed $3,000,000. Think of it! Twenty-

seven out of thirty million dollars wasted! In many instances wells were never completed. Some companies were promoted which did no drilling, the proceeds of their stock sales being absorbed in "organization" expenses. And the worst of it is that in such speculations the majority of the speculators are persons who cannot afford to lose any part of their capital.

In oil, mining, and real-estate promotions, and others of a similar type, much misleading advertising material is often circulated. Certain publishers are as much to blame for many of these losses as are the promoters who furnish the advertising copy. It is almost inconceivable that we should allow such advertising as so frequently appears, especially in daily newspapers.

One of the commonest forms of arousing interest in oil, mining, and real-estate booms is to cite a case, or a few cases, of persons who have made an amazingly large profit from an insignificant sum of money. Even if the truth is always told as to an individual case, the advertise-

ment is misleading; for the suggestion conveyed to the reader is that he, too, may make a fortune from a very small investment. The enormous amount of persistent advertising of this sort is in itself ample proof that the public buys the stocks that are offered.

Glowing accounts are given of the prospects of the new companies, and every device is used to nerve the reader up to the point of making the plunge. One of the well-known tricks is to state that stock is now selling for, say, $1 a share, but that the price will advance to $2 the first day of next month. To use a slang expression, this kind of advertising "gets them coming and going." They will lose if they don't buy and double their money if they do. What chance has the unskilled investor, who is daily wondering if there isn't some quick way to get something big for only a little, against the strong appeal of such advertising?

Following are extracts from two typical oil-promotion advertisements actually published in newspapers:

GOING FAST!

The phenomenal success of —— Gas Company and the tremendous profits made by investors, ranging from several hundred per cent to a MONTHLY INCOME of $3,195 on an original investment of $150, have created world-wide interest in —— gas stocks.

IS YOUR INCOME $12,000 A MONTH?

—— Gas and Oil will advance. The man who is to-day getting $12,000 a month out of his $600 investment in —— Gas stocks is the man who had the COURAGE and the NERVE to invest $600.

The author has just received a circular advertising an oil company and citing the following instances of individual profits: (1) A St. Louis woman who invested $200

and made $75,000; (2) a Mr. B. who invested $75 in two pieces of oil land for which he had been offered $50,000; (3) a man who bought a lot for $100 on which he sold a lease for $20,000; (4) a Mr. C. who "cleaned up" $106,230.85 on an investment of only $3,000.

"She Now Paints China a Little"

A trust company of New York City, in one of its advertisements, tells the story of a woman who had inherited a large estate which she managed herself:

> The elderly lady who opened her old tin box of securities is quite willing that we give the following facts:
>
> She is a gentlewoman over sixty years of age. She has never shown money sense. Fifteen years ago she inherited the family estate of close to a hundred thousand dollars.
>
> Financially, at that time, her future looked rosy.

On the advice of a friend of the family she at once invested everything as follows:

Oil stocks (two companies) . .	$27,000
Mining stocks (four companies) .	32,000
A city home paid for outright .	17,500
Deposited in several savings banks	18,000
	$94,500

She was led to believe her income would amount to $5,500 a year.

The mining stocks yielded handsome dividends for a few years, then dwindled, then stopped. From the oil stocks she fared worse. Journeys to the savings banks became more frequent. Later she rented her home—finally mortgaged it.

To-day the net income from the estate is a bare $600. The gentlewoman, as we said, is past sixty. We understand she now paints china a little and sells what she can.

One day she opened an old tin box and in an embarrassed way exhibited the bundle of worthless stock certificates. That is how we learned the story.

As business men perhaps it is not our place to moralize. *But we do know that such money waste is morally wrong and should be and can be made impossible by definite safety measures.*

Trading in Margins

The most insidious methods are used by some stock brokers in an endeavor to secure the business of new customers, including women. For example, the author has received printed matter in which trading in margins is explained for the benefit of the uninitiated by a carefully drawn analogy to buying a house with a small initial payment and a mortgage for the balance. It is usually stated that the stock margin differs from the mortgage on real estate only in that the margin is, as it were, a mortgage which has to be renewed from day to day.

Nothing is said, of course, about the dangers of the widely fluctuating prices of stocks and of the inability of the average stock trader to put up the money necessary to protect himself in case of a bad break in the market; nor is he, as a rule, warned not to trade in highly speculative stocks. The chief emphasis is on the opportunity for trading in a much larger amount of stocks than the purchasers could possibly buy to hold, with the chance of making large profits out of an advance in the market with only a comparatively small amount of capital invested.

"Women are prone to speculate," says a financial journalist. In the list of customers of a notorious bucket shop that came to grief not very long ago, 50 per cent were women who did business by mail entirely. An officer said, "We have found them excellent customers. Most of them deal in very small lots. When they lose they pay up. Many of them are speculating without the knowledge of their husbands and are afraid to raise a row; others are restrained by the desire

to avoid publicity of an unpleasant sort. *On the whole we find them satisfactory.*"

Leading Citizen a Crooked Tipster

Recently a salesman of promotion stocks told the author of one of his experiences that is significant. He arrived in a village in the West and called on the local banker, whom he asked for the names of persons who might be in a position to buy stock. The banker suggested the name of a widow, who, he said, had a "little money," and the salesman went to call on her. He found out that all she had was about $300. Fortunately for her, he was honest, and told her that the stock he was selling was speculative and was not the sort of thing in which she should invest her money.

The banker must have known the widow's situation, for they lived in a small town and he was so well acquainted with her that he knew of her small savings. It seems almost unbelievable that a man of his position should have done what he did. Yet the fact remains. If he made the same suggestion to other stock

salesmen, it is quite probable that sooner or later she put her money into some speculative stock.

The widow is not even sure of help from those whose position in the community would seem to give her the right to expect from them the utmost protection within their power.

"Birds of Prey"—Lord Bacon

But there are still worse things than speculations in gas, oil, copper, and gold. There are schemes by which people are intentionally defrauded of their money for which no adequate return is even possible. Swamp lands have been advertised as perfect soil for plantations or orange groves. Salt marshes have been exploited as seaside resorts. Orchards have been offered and sold on land that wouldn't yield any better crop than stones and thistles. Fake oil and mining companies are promoted. These schemes are often operated through the mails, and every year the United States postal authorities run some of them to earth. Half a billion dollars a year is the figure compiled by the

Federal Trade Commission in 1921 as the amount invested by the people of this country in worthless stocks and other fraudulent investments. This startling figure was presented before the Judiciary Committee by the Federal Trade Commission in the hope of obtaining government protection for credulous investors. It is estimated that of the half billion lost in this way in 1920, $350,000,000 came out of savings accounts, while $150,000,000 was wasted through the exchange of Liberty Bonds.

In 1920 a New York newspaper published the following:

"A procession of heavily veiled widows and many other kinds of persons filed into the Federal Building all day yesterday, begging the post-office inspectors to get back the money they had sent to the Burr Brothers, lately of the Flatiron Building, but now of the Tombs, for investment in the wildcat oil and mining companies they pretended to promote.

"Inspector Kincaid said many of the women lost all they had in the world. Some of the women, in fresh mourning, related that they had invested with Burr

Brothers the proceeds of their husbands' life insurance on the promise of having their little fortunes doubled and tripled, with handsome dividends, besides, and they had lost all. These tales they told with tears and sobs.

"Mrs. L—— of Philadelphia told the inspectors that her husband had died only a few weeks ago. His life insurance amounted to $4,000, and this was all she had for her support. She had seen the advertisement of Burr Brothers telling how a small investment would soon grow to an enormous sum, and had sent them her money."

There is a well-organized practice of circularizing what crooked promoters call "sucker lists"—lists of people who, it is thought, will "bite" easily. The names of widows who have received insurance money are eagerly sought for such lists. An officer of a trust company told the author that the heirs of estates, large and small, are listed, circularized, and solicited by fraudulent operators. A writer on the subject says that "it is no exaggeration to say that more than one half of the

small legacies given to unprotected women in this country go wrong."

Preparing "sucker lists" is a specialized business carried on by certain "name brokers," of whom a magazine writer says: "Perhaps the highest priced 'quick' list consists of the names of people of small means who have lately inherited money. A company which retails a list of this sort to five promoters adds to it week by week and gets a very high price. The names are obtained through a clipping agency, which may (or may not) be an innocent partner in the crime. The agency is under contract to furnish to the 'name broker' *all printed details* of the settlement of small country estates. Again, legal notices very often contain valuable names. The house organs published by some life-insurance companies have long lists of recent beneficiaries. These names are the finest possible grist for the mills."

Liberty Bonds for Worthless Stocks

An investigation made by the United States Treasury Department revealed the

fact, according to Louis Guenther, in an extraordinary story, in *The World's Work*, that $400,000,000 worth of Liberty Bonds were taken from people living in the Middle West in exchange for promotion stocks and insecure investments. Mr. Guenther also gives a list of oil, mining, industrial, and miscellaneous stocks of questionable character in which about *three billion dollars has been wasted.* He quotes an Oklahoma newspaper in stating that for every $555 of capitalization, oil-promotion companies operating in Oklahoma produced *only one dollar's worth of oil.*

Is it surprising that women take chances with their money? Their husbands did the same thing. No doubt most of the three billions referred to above was risked by men.

The get-rich-quick promoter is more than a character in fiction; he is a very real and dangerous person, perennial, ubiquitous, clever, persevering, and thorough—a human hawk, alert to prey upon the weak and defenseless.

What an apt phrase that of Elbert Hubbard's, that the woman inexperienced

in investments is a "*shining mark for the mining shark.*"

Fraudulent Real Estate Sales and Mortgages

The following newspaper dispatch is a good example of the astonishing simplicity of some of the frauds that are successfully practiced on persons who have money to invest:

"With more than a score of lawyers trying to unravel the tangled affairs of Harry —— so as to learn if the mortgages and deeds to homes held by their clients are worth more than the paper they are written on, the accused real-estate operator refused to-day to make any statement. He is in the county jail, on charges of forgery and embezzlement. It is alleged by former Congressman —— that his defalcations will total more than half a million dollars.

"A number of clergymen are among those who hold mortgages declared by the police to be worthless. The Rev. —— of —— has a $2,000 mortgage on property valued at $5,500, on which —— is alleged

to have sold mortgages totaling $12,000. Director of Public Safety —— invested $24,000 for relatives in —— property and mortgages.

"A lawyer declared that a deed was given his client by —— to the fifth house in a four-house row, while another found that his client's deed was for an underground alley instead of the house thought to have been purchased. In the Recorder's office it has been discovered that —— has issued six mortgages on one property."

Cleveland Bank's Experiment—The Cat and Rat Ranch

An article published last year in the *American Magazine* tells how a Cleveland banker demonstrated that many men will be deceived by any kind of an investment "fake," even when the scheme advertised is clearly a fraud and when, in addition, the public is warned against it. He posted in his bank window a large placard, telling the old ridiculous story of the California Cat and Rat Ranch, as follows:

GLORIOUS OPPORTUNITY TO GET RICH QUICK

INVEST IN

THE CALIFORNIA RANCHING COMPANY

Now being organized to start a cat ranch in California

We are starting a cat ranch in California with 100,000 cats. Each cat will average twelve kittens a year. The cat skins will sell for thirty cents each. One hundred men can skin 5,000 cats a day. We figure a daily net profit of over $10,000.

Now What Shall We Feed the Cats?

We will start a rat ranch next door with 1,000,000 rats. The rats will breed twelve times faster than the cats. So we'll have four rats to feed each day to each cat. Now what shall we feed the rats? We will feed the rats the carcasses of the cats after they have been skinned.

Now Get This

We feed the rats to the cats and the cats to the rats, and get the cat skins for

nothing. Shares are selling at five cents each, but the price will go up soon.

INVEST WHILE OPPORTUNITY KNOCKS AT YOUR DOOR.

Incredible as it may seem, the bank was besieged by persons inquiring for further particulars and by many who wanted to buy stock. Some were insistent when the bank explained that the scheme was preposterous, thinking they were being denied the privilege of "getting in on a good thing."

If men of some business experience are so easily tricked by a blatant hoax, how can we expect that a widow of no business experience, whose husband has left her all too little with which to eke out a difficult existence, should not be persuaded to take a chance in oil or gas or mines or something else, in the hope of securing a big return. Indeed, are the women really the ones to blame?

The "Widow's" Advertisement

With a view to seeing what sort of proposals might be made to a woman who

has money to invest, the author ran the following advertisement in a newspaper several months ago:

> Has anyone an investment or business interest, earning a fair profit and absolutely safe, to offer a widow with $12,000 to invest? Give details. Write S 150.

Here are some of the proposals received purporting to comply with the requirement of the advertisement, *that the investment be absolutely safe* and yield a *fair* profit (note the number of *new* enterprises):

1. An interest in a retail coal business in Ohio, guaranteeing 10 per cent at the beginning and 25 per cent later.
2. An interest in a *new* factory making sanitary sugar bowls.
3. A half interest in an established business that "will surpass as an investment any business proposition in the city."
4. An interest in a chain of stores.
5. Preferred stock in a manufacturing company at $120 a share and a share of common stock with each share of preferred.

6. An interest in a *new* stove manufactory.

7. Stock in a coal mine *just being organized,* with a view to making huge profits out of foreign shipments. The writer says, "Safety is the keynote of this proposition and the profits are large enough to satisfy the most exacting."

8. Another does not name the business, but it is a proposition that "makes the money secure and assures big profits."

9. A realty company which is *just organizing.*

10. A postal card read as follows: "If a salary of $50 a week and 15 per cent on your money will satisfy you, call at our office. We want a lady to manage a branch store."

11. The gem of the lot is from a man who claims to have perfected some of the most useful of all inventions, which he specifies—inventions well known to everyone. He wants the widow to put up her $12,000 and be an equal partner in the promotion of a number of his new inventions, such as a geographical card game, a press feeder's delivery thimble,

an aeroplane stabilizer, a collapsible rim for automobiles. He tells the widow that he believes he can convince her that the proposition "is bound to yield not hundreds or thousands of dollars, but millions, in a comparatively short time."

Most of these proposals represent common, sound types of business—a retail coal firm, a manufactory of sugar bowls, a chain of stores, a stove factory, a realty company. One who was afraid of oil wells and gold mines might have considerable confidence in these proposals for substantial types of business, such as we see about us in every community. But the widow's funds have no place in such enterprises.

After carefully reading these letters several times, the author is convinced that most of them are written by men who have no dishonest intentions. No doubt they fully believe they can succeed if they only can get capital. They probably bear good reputations. This makes their bids for capital all the more seductive, and all the more dangerous to the

widow who can afford to take no chances with her limited funds.

Beneficiaries Try to Destroy Safeguards

One of the most convincing proofs of the danger of leaving insurance money in a lump sum is the attempt made by many beneficiaries to have life-insurance companies pay them the cash equivalent, or commuted value, of the payments guaranteed under income settlements.

The author has recently asked the legal representatives of two large life insurance companies if they were often requested to commute income settlements—that is, to pay the cash equivalent of future income payments. Both of them replied that a great many widows even go so far as to employ lawyers to try to force the company to pay the principal sum instead of the income. No doubt other life insurance companies have the same experience.

Of course, the companies refuse to pay the principal in every case in which the policy contract or the insured's application withheld

the right of commutation. Frequently the company's officers follow up such cases and learn that the beneficiary has lost what money she had, aside from her insurance income, in some speculative venture.

A life underwriter told the author about a woman entitled to a limited installment income of about $1,000 a year for five years, who requested commutation of her income, saying frankly that she wanted the money to invest in oil stocks. She was refused, and then employed a lawyer, who failed, of course, to get the money for her. Shortly afterward an income payment of about $1,000 was made to her, which she promptly put into oil stocks. Before the second payment came due the oil company had used up its funds drilling a couple of dry wells and was out of business. The widow was then very grateful to her husband and to the company for protecting her. She said that if she had received the $4,000 (approximately) which was still in the company's hands she would have put the whole amount into the oil company.

Usually it is the beneficiaries of small policies who seek to have the insured's purpose thwarted. The smaller one's estate, the stronger becomes the temptation to risk one's money in the hope of winning a large profit. The man or woman who has an adequate income from conservative investments is content, or can easily be convinced that it is unwise to take any chances. But persons who have little often feel that they ought to make an effort to increase their estates rapidly. They quote the old adage, "Nothing ventured, nothing gained" as a text from which to justify the risks they propose taking.

Yet it is the small estate which should be guarded most carefully. If a widow has \$100,000, she can lose \$20,000 and still have enough to live on. But the woman whose income depends on, say, \$5,000, can't afford to lose a dollar. The man who is able to leave only a small estate should be at least as careful as the millionaire in surrounding his estate with every safeguard. However, as a matter of fact, rich men usually exercise greater

caution in these matters than do men of small means.

Misplaced Confidence—Dishonest Friends and Relatives

One of the saddest of the many unfortunate experiences that can come to a widow with money to invest is a loss through the dishonesty of a friend or relative. A lady living in the East lost her husband in the summer of 1900. He left enough life insurance to educate the two children and to furnish his widow with a fair income at a reasonable rate of interest. In 1910 an old friend of the family visited them in their home. In the old familiar way all sorts of family affairs were discussed, for they knew he was interested in whatever was of importance to them. The widow told her friend that she was obliged to reinvest $5,000 which she had just received in payment of a mortgage, and asked his advice. He mentioned several investments and, finally, had an inspiration. He just remembered that he must soon

borrow a few thousand dollars to carry on some development work in a large orchard he had bought in the West. It was a splendid property and he expected it would soon begin to yield him a large profit. If she wanted him to take her money he would pay her the same rate of interest he would be obliged to pay in the West—rather a high rate. She was pleased, the money was loaned, and a note given.

A year passed and the first interest payment was due; but no word came from the West. Finally, a letter was written; but there was no answer to this nor to a second letter; and in due time both were returned from the Dead Letter Office. A letter to a brother of the borrower brought the shocking information that his brother had not been heard from in more than a year and had never owned an orchard property. The widow has never received any part of her $5,000.

The author knew a banker, a highly respected and greatly admired young man, who managed the estate of two sisters very satisfactorily for several years. Later

he became interested in a business which was so successful that he gave up his bank position in order to devote all his time to it. But there soon seemed to be trouble with the income on the trust estate. Investigation showed that he had embezzled a large part of the funds for use in his business, with the result that he is now serving in the penitentiary and the sisters are in reduced circumstances.

The author knows of two sisters—elderly maiden ladies—whose father, a successful merchant, left to them and a brother a large estate. It was natural that they should look to their brother, who had made a marked success in business, for guidance in the investing of their money. Finally, they turned over all their property to him to manage, giving him a free hand to sell any of it, in order to make more advantageous investments if he saw fit to do so. For several years they received regularly an income which represented a satisfactory return on their capital. Eventually he notified them that some of their investments were tempo-

rarily suspending dividends, but that he was in a position to make the losses good, which he apparently did.

Imagine how terribly they were shocked when one day they received a telegram announcing the death of their brother by suicide. For several years he had speculated with their money as well as his own, finally losing everything. Rather than face the censure of his sisters and, perhaps, punishment, he had taken his life. Fortunately the sisters were well educated and had influential friends; and, although they were over fifty years of age, they were able to secure agreeable and reasonably remunerative employment. But they can no longer enjoy the carefree and sheltered lives which they formerly led and which they would have continued to enjoy as long as they lived if only their principal had been in safe and capable hands.

It is a natural, but a dangerous, thing for women to intrust their money to friends or relatives for investment. They should be safeguarded against the necessity of seeking an individual trustee, for many a man who

has resisted other temptations has embezzled the funds of trusting women.

Failure of the "Iron-clad" Trust Agreement

It sometimes happens that a man leaves his property with a trustee and makes careful arrangements to provide for the permanent administration of his estate according to plans which he outlines in detail. If conditions remain always favorable to the plans which he has made, the estate may be kept intact and made to earn a good return indefinitely. But no man can be sure that conditions will never change for the worse. Estates left under trust agreements, through which the deceased had thought to safeguard his beneficiaries, have sometimes suffered as the result of restrictions which he himself imposed.

A number of years ago an official of a large Eastern corporation left a considerable estate, most of which was in the stock of the corporation. The estate was left under a trust agreement with a prominent trust company. The deceased's daughter was to receive one half of the

income from the estate, while an institution was to get the other half.

Instead of leaving the trust company a certain freedom of action in case of necessity, the father had a special clause inserted in the trust agreement providing that no part of the estate should be sold for reinvestment unless the daughter, the institution, and the trust company, all three, agreed that the proposed change was wise. Such a provision seemed to leave open a way for a change in investments if necessary; but it seemed unlikely that the daughter, the institution, and the trust company would all three agree on an unwise course.

The stock of the corporation of which the estate was largely composed had been worth over $200 a share for a long time preceding the deceased's death and had, for many years, paid dividends of 10 per cent to 12 per cent. However, the daughter's husband, a good business man, finally made up his mind that the stock of his father-in-law's corporation ought to be sold; although the market price remained high and the dividends continued satis-

factory, it seemed to him that there were conditions which pointed to a possible decline in this stock. His wife agreed to sell. The trust company agreed to sell. The institution refused to sell.

To-day that stock is worth only about $20 a share, or less than one tenth of what it was worth at the time the trust agreement was made. No dividends have been received in years. The daughter and her husband—beginning to grow old—had expected the trust estate would support them in their old age. *Even though a man uses what seem to him to be extraordinary precautions to throw safeguards about the estate he leaves his family, there are dangers growing out of changed conditions which he may not be able to foresee and which the very provisions he had established make it impossible to avoid, with resulting ruin of the estate.*

Extravagant Spending

There is one other danger to the lump sum—the unwise or extravagant spending of the capital. A young man, insured by an agent whom the author knows, died

and left his wife just $1,000 of life insurance. She went to live with her parents and used the $1,000 to buy a player piano. A few days ago another exactly similar case was reported in Pittsburgh.

One afternoon, a few years ago, while traveling on the "Twilight Limited" from Minneapolis to Duluth, the author fell into conversation with a man from Kansas City. They went into the observation car together for a smoke. The stranger was a furniture dealer, and furniture was discussed for a long time, when, suddenly, he asked what was the author's business. When he learned that it was life insurance, the stranger said, "Well, I used to believe life insurance was a good thing; but I don't any longer."

"That," was the answer, "is a remark we don't often hear. Practically everybody believes in, and carries some, life insurance."

"Oh, I carry life insurance," he said, "but I don't know why. It is just a gamble whether it will really do your family any good or not. I'll tell you," he continued, "what caused me to lose

faith in life insurance. Some years ago I had a friend in Kansas City. He was married and had one child, a daughter. He owned his home, made a good living, and did all he could to make his family comfortable and happy, denying himself vacations and some other things he should have had in order to have more to spend on his family. The only money he saved was what he invested in the premiums on a $50,000 life insurance policy. Sometimes it was hard to meet the premiums when they fell due, but he always paid them, even if he had to borrow the money. He often said that his life insurance gave him more satisfaction than anything else in the world, for he knew that with the insurance money and the home, which was free of incumbrance, his wife and daughter could live comfortably if anything happened to him.

"He died, and soon things began to happen in the old home. The widow was very ambitious for her daughter; wanted her to succeed socially and to marry well. But she thought this plan couldn't succeed if they lived in the old home, a comfort-

able, though unpretentious, house in a respectable, but not fashionable, street. So she bought a lot in a new section in which Kansas City society was gradually intrenching itself, and built an expensive, though small, house. And then one day she came to my store with blue prints of the floor plans and said she was going to buy new furniture and wanted to get it from me in order to have me help her select it.

"I asked her to give me an idea of what kind of furniture she wanted. She began with the reception room, which she wished to furnish in French gold, Louis XVI. I reminded her that this was very expensive, armchairs at $100 to $250 each, sofas at $300 to $750, tables and other articles accordingly, and suggested something simpler, in good taste and comparatively inexpensive. But she would have none of my advice and finally said: 'I've always wanted a set of this French gold furniture. This is the first time I've ever had a chance to have it, and that's what I'm going to buy.'

"At that I was angry, and said: 'Then,

madam, you can't do business with me. Your husband made personal sacrifices in order to leave you the insurance which he thought would take care of you and your daughter as long as you live, and you are doing all you can to defeat his purpose. He was my friend and I won't be a party to what you are doing.'"

After a moment, visibly affected, the furniture dealer added, "That woman never would speak to me after that when I passed her on the street; and to-day she is keeping a boarding house in Kansas City."

Of course, the author immediately explained that an income settlement would have prevented such a disaster. When it dawned on the man what was meant, he looked first surprised and then angry. Then he smashed his fist down on his chair and fairly shouted: "Then why in hell don't the life insurance men tell us about it? I have insurance. I didn't know about this income proposition. I don't believe my friend knew it. Hardly a week passes that some life insurance man doesn't call on me, and none of

them ever mentioned that income proposition."

Summarizing Dangers Which Threaten the Principal

To sum up, what are some of the objections to the lump-sum settlement as illustrated in the cases we have cited?

1. The beneficiary does not, as a rule, invest her money immediately. It lies idle in the bank, earning nothing.

2. She checks on her principal to pay living expenses, sometimes doing this until her fund is materially impaired or exhausted.

3. Relatives are often ill or in debt and the beneficiary may draw on her principal to help them.

4. Relatives may ask for loans to put in their businesses. Even a son may borrow to start in business or a daughter may get help for her husband.

5. The widow may be anxious to conserve her funds and invest them safely. But where is she to invest her money? It is a puzzling question. She gets conflict-

ing advice from the different people. Her situation is difficult and causes her worry.

6. She may receive good advice and invest in approved securities which turn out badly. Frequently changed conditions bring failure to investments which were once considered safe by experts.

7. She may put her money in highly speculative stocks. She hears men of her acquaintance talk about their occasional successes in speculation and thinks she may do as well as they. The smallness of her income makes her especially anxious to earn the large profits she hears about.

8. She may be the victim of crooked promoters who solicit her subscription or who reach her through misleading advertisements, promising immense profits on small capital.

9. She may intrust her funds to some friend or relative who proves to be dishonest.

10. She may purposely not invest her money, thinking unwisely that she should spend it on her children, making them as comfortable as she can, as long as the money lasts.

11. She may throw her money away in reckless living. She thinks she has such a lot of money, and there are so many things she has always wanted but been unable to afford. The time seems finally to have come when she can gratify her desires and ambitions.

The Safeguard

Is there any safeguard against these dangers? Of course there is. We know that income settlements protect the beneficiary against her own ignorance and weaknesses, and against persons who would take advantage of her. Her money can't lie idle; it begins earning from the very start. She can't check on her principal, for it never gets into her bank account. She can't lend to her relatives to assist them in their business, nor can she give them large sums of money to help them in their difficulties. She will have no investment worries; she will lose no money in approved investments that change for the worse, or in speculative stocks. She will be safe from crooked

promoters. The life insurance company holds her money; she can't even spend any of her principal.

If it is possible for such dangers to threaten, damage, or annihilate the lump sum, and if they are avoided under the income plans, isn't it our clear duty to use income settlements? Not for every policy: of course not. The widow needs cash to pay outstanding bills, funeral expenses, a mortgage, administration costs, and inheritance taxes. But income settlements should nearly always be used for policies which the insured carries for the purpose of providing living expenses for his widow and children—the policies he has in mind when he says, "I have bought protection for my wife and children."

III

AUTHORITATIVE EXAMPLE AND ADVICE

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IT will be helpful to see what certain reliable authorities have said or done in the matter of income payments to dependents:

The United States government adopted the income settlement for War Risk policies. A newspaper reported recently that seven or eight mothers in Hartford, Connecticut, are now, each, receiving $57.50 monthly from their soldier sons' War Risk policies, and there are thousands of families in the various states who are receiving this War Risk insurance income every month.

The Mothers' Pension laws of many states provide not lump sum payments, but incomes to mothers entitled to state assistance.

The Carnegie Fund provides monthly pensions to retired teachers.

Andrew Carnegie at one time held $3,137,384.20 intrusted to him by 148 widows who had asked his assistance in investments. He paid them 6 per cent interest. Garrett Brown, an insurance publisher, called Mr. Carnegie's attention to income policies, and he wrote to Mr. Brown as follows: "I am greatly pleased to hear of such an insurance as you describe. . . . This is a great step in advance. I have a case in hand to-day where a young widow's insurance money was handed over to a gentleman for investment. He is now bankrupt and the poor woman is left in destitute circumstances."

All of Carnegie's bequests, under his will, to members of his family, relatives, friends, and servants, fifty in number, were left in the form of life incomes, including even those to several men of means and business experience. The incomes were to be paid from invested funds of the estate or by purchasing annuities in life-insurance companies of good standing.

The late J. P. Morgan's bequests to women were in the form of life incomes.

The assistance given by the Episcopal

Church to superannuated clergymen and the widows of clergymen is in the form of monthly incomes.

Judge Henry Hoover, of the Probate Court of Cook County, Illinois, said to be the largest single probate jurisdiction in the world, is quoted as saying: "My experience as a probate judge has impressed upon me the high wisdom of the income policy. . . . The number of widows who squander is appallingly large. . . . The danger of dissipation of the estate is greater in small than in large estates. The amount of the estate may seem to the widow too small to yield ample income. Hence the appeal to "get-rich-quick" ventures, to investments flaunting opportunities for speculative profit, is to widows with small estates particularly alluring. . . . As a student of conditions, *the life-insurance man should grasp the need of a guaranteed fixed income to those unaccustomed to manage investments.*

"World's Work" Advice

Several years ago *The World's Work* published an account of a letter received

from one of its subscribers. His brother had died three years before, leaving for the support of his widow and two boys, thirteen and fifteen years old, a comfortable home, a small amount of savings and investments, and $20,000 of life insurance.

During nearly three years the brother received very little news from the family. Once he heard that the boys had been taken out of the public schools and sent to a private school. About a year before writing to the magazine he had learned that the older boy had gone to work and that the younger one was back in the public schools. Finally, he was called on for assistance and learned the story of the investment of his brother's estate.

In the beginning the widow had invested in good mortgages. Then she was solicited by a local lawyer, young and enthusiastic, to put her money into a South American plantation company, which was paying 1 per cent a month—12 per cent a year. With this great increase in income the widow had been able to place her sons in an expensive preparatory school. For a time the family enjoyed their prosperity.

Then came bad news. The company needed money. The widow's home was mortgaged to protect her investment, all in vain, and the family was now in need. The older boy gave up his education and went to work. The only security of any value which remained was one which was not listed; the widow had been unable to find anybody who knew where she could sell such a bond. The brother-in-law was called to the scene of the catastrophe and had just returned home when he wrote to *The World's Work* for advice about his own insurance. He said: "What can a man do to protect his own family? My own wife is just like her—too busy in her home duties to learn anything about the business world. It seems that the better wife and mother a woman is, the surer she is to be an easy mark for sharpers, when protection is removed."

The editor answered his correspondent's question as follows: "The simplest and the easiest of all methods to guard against the unhappy accidents of the nature described is to buy life-insurance policies that provide for regular payments to the

beneficiary at stated intervals—a year, six months, a month, etc."

Why aren't we following this *World's Work* advice? Why aren't we safeguarding our beneficiaries in the simple way recommended against the dangers which will surely threaten them if we leave our life insurance payable in a lump sum?

The pictures outlined above are not fiction. They are facts drawn largely from the author's experience and observation and the experience of persons he has known. They are not isolated cases. They are typical of thousands and thousands of disasters that are occurring daily all over the country. They aren't found in every section except the one in which you live; they are happening every year, perhaps every month, in your own town or county.

IV

SUPERIORITY OF LIFE-INSURANCE MANAGEMENT OF BENEFICIARIES' FUNDS

IV

SUPERIORITY OF LIFE-INSURANCE MANAGEMENT OF BENEFICIARIES' FUNDS

TO-DAY it is universally recognized that corporate management of investments is, on the average, by far the safest. The investments of the bank, the savings bank, the trust company, and the life-insurance company are, as a rule, vastly safer than those of the individual investor; for such corporations command at all times expert investment skill and experience, and the depositor or beneficiary has many safeguards against losses through maladministration or defalcation. Individual judgment is, ordinarily, a poor substitute for the combined services of the officials and directors of financial corporations such as those named above.

Sometimes a man arranges to have a trust company hold the proceeds of life-

insurance policies in trust for his beneficiaries; and this is an excellent procedure, far better in every way, as a rule, than to leave the money to the beneficiary in a lump sum. But the life-insurance company offers some special advantages in the administration of life-insurance funds intended to produce income for the beneficiary.

The proceeds of a policy are not invested by the life-insurance company in specific securities as is done by an individual or a trust company. On the contrary, they are mingled with the total assets of the company, in the same way as an individual's deposits in a savings bank are mingled with the total funds of the bank. The beneficiary is credited with the amount of money accruing from the policy of the deceased, and her funds are invested together with the money of thousands of other persons, policyholders and beneficiaries, each person having a share in every investment in the proportion of the amount of his, or her, credit to the total amount of the company's investments. *Thus the beneficiary has the*

enormous advantage secured through maximum variety or diversification of investments.

To illustrate this point let us compare the ordinary attempt of an individual to diversify an investment of $10,000 with the distribution of investments afforded the proceeds of a policy left with a life-insurance company on some income plan. An individual desires to distribute $10,000 over a wide field, placing, say, $5,000 in real-estate mortgages. It would be hard to find good mortgages in smaller amounts than $1,000, though one might buy real-estate mortgage bonds in smaller denominations. The other $5,000 could be invested in municipal and state bonds and first-mortgage bonds of railroads and public utilities of the highest security. Most people would invest the $10,000 in only a few different securities; not many would divide such a sum into more than ten portions; a few might invest $500 in each of twenty different mortgages, bonds and stocks. Occasionally bonds as small as $100 could be obtained; and if the individual should divide his $10,000 into a hundred carefully chosen invest-

ments of $100 each, he would secure a high degree of safety as compared with the more common plan of investing in minimum blocks of $500 or $1,000.

The life-insurance company of any considerable size has many hundreds of different investments, and, as each policyholder and beneficiary has an interest in each of the company's investments, it is clear that he obtains, through the life-insurance company, a remarkably high degree of investment diversification, with a correspondingly high degree of safety for his funds.

Another way of stating the case is that the individual benefits from the law of averages applied to a very large number of investments. The life-insurance company may occasionally have some individual investment which depreciates in intrinsic value. But this depreciation will, as a rule, be offset by the appreciation of other investments, the average being satisfactory. Suppose, however, that such a depreciation were not offset by an improvement in other investments; there is yet another safeguard. The company carries, and to comply with the laws *must* carry,

a sufficient surplus, one of the purposes of which is to absorb any possible depreciation in investments.

These measures of protection enable the life-insurance company to guarantee not only the principal, but also a minimum rate of interest. Since the beneficiary shares in every investment, she shares also in the income from each investment, and her income is assured by the law of averages as applied to the interest on all the company's investments. Thus the life-insurance company offers the husband, or father, who desires maximum safety for the insurance money he will leave to his family, that rare combination of a *guarantee that the funds credited to the beneficiary at any time shall be worth par, and that a minimum rate of interest shall be paid.*

Beneficiary Cannot Cash In, or Assign, Equity

Under income policies and the income settlements of other policies, the life-insurance company will agree, if so requested by the insured, to pay to the

beneficiary only the stipulated income installments, or interest, and not to pay the principal sum, or commuted value, of the income, even though the beneficiary demands it. The company will also agree not to recognize an assignment of the commuted value, or principal sum. Thus by contract the insured obtains from the life-insurance company a guarantee that his insurance will be distributed only on the plan which he has selected. *Such contracts, furnishing a high degree of service, are written without extra cost.*

V

SUMMARY OF ADVANTAGES OF INCOME SETTLEMENTS

V

SUMMARY OF ADVANTAGES OF INCOME SETTLEMENTS

THE advantages of using income plans instead of lump-sum settlements may be briefly summarized as follows:

1. The income begins immediately. There is no delay in selecting investments.

2. The productive funds are never idle, awaiting investment or reinvestment. They begin to earn interest at once and are constantly invested.

3. A fixed minimum income is paid.

4. Since the income is regular, the beneficiary can arrange her scale of living expenses accordingly.

5. The life-insurance company's service is prompt and complete. The beneficiary has nothing to do but indorse her checks each month and deposit them in her bank account. They reach her at any address at any post office in the world.

6. The life-insurance company does all the work of investing, collecting interest, and keeping investment accounts.

7. The life-insurance company can pay income in equal amounts monthly, whereas if the beneficiary's personal investments are in any form other than rents, the income will, as a rule, be paid quarterly, or at semi-annual or annual intervals, and will usually not be regular as to the amount of the income payments, so that there may be lean as well as fat times of the year.

8. Creditors cannot attach the insurance fund, and the beneficiary cannot successfully anticipate or assign it.

9. The life-insurance company provides corporate investment and supervision of funds in place of individual management. Experts in finance take the place of inexperienced investors.

10. Corporate responsibility and reliability are vastly superior to the responsibility and reliability of individuals who might assist the beneficiary in managing investments.

11. The companies are limited by the

laws of many states to certain types of investments that afford high security.

12. From time to time state insurance departments inspect and appraise the investments of the life-insurance companies.

13. The funds of the beneficiary are mingled with the life-insurance company's total assets, instead of being invested in a few specific securities on which the safety of the money must depend. Thus, if the beneficiary has an interest of $10,000, no particular $10,000 investment is hers; but we might say that *any* $10,000 of the company's money is hers.

14. The life-insurance company carries a surplus in excess of its liabilities for the purpose of safeguarding policyholders and beneficiaries against possible losses of principal or interest. Thus *principal and a minimum rate of interest* are guaranteed.

VI

A PICTURE OF LIFE-INSURANCE SERVICE

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A PICTURE OF LIFE-INSURANCE SERVICE

CONTRAST the dangers described in the foregoing pages with the following picture of life-insurance protection: Mr. Doe is insured for the benefit of his wife, his son, and his daughter. He dies when his wife is thirty-five years old, his son ten, and his daughter five. Immediately after his death the agent of the life-insurance company assists in the preparation of the necessary papers, and, within a few days, delivers to Mrs. Doe a check for $6,250.

"Mrs. Doe," he says, "here is a check for $6,250, the first of many payments which our company will make to you in accordance with instructions given by Mr. Doe. And here is a copy of the memorandum which you found with his policies the other day." Mrs. Doe reads again

the following memorandum, which is addressed to her:

"Six thousand dollars of my insurance is to be paid in cash. I estimate that it will take at least $5,000 to pay my outstanding current bills, inheritance and income taxes, and my funeral expenses. The additional $1,000 is for the purpose of increasing your first year's income. You will receive a regular monthly income of $250—$3,000 a year—as long as you live, plus some additional interest for the first nineteen years. But during the first year after my death it will probably be harder for you to manage than it will be later; for you will have to adjust your living expenses to a reduced scale. If, therefore, the bills to be paid after my death do not exceed $5,000, you will have over $4,000 to live on during the first year and at least $3,000 a year each year thereafter, as long as you live."

The agent explains that the check for $6,250 includes also the first monthly payment of $250.

A month passes and one day the agent telephones Mrs. Doe. "Mrs. Doe," he

asks, "did you receive a check from our company to-day?"

"Yes," she replies. "It came in the mail this morning and I have already deposited it in the bank."

"It was for $250, wasn't it?"

"Yes, it was; everything was all right. I didn't even have to sign any receipt. All I had to do was to make the deposit."

Month after month, year after year, checks for $250 were delivered to Mrs. Doe promptly by the postman. All she had to do was to deposit the checks in her bank. She was never obliged to spend any time considering investments. The stock market never gave her any worry. The passing of stock dividends caused her no embarrassment. Even in times of business depression she never lost a moment's sleep over her money. She had no rents to collect from tenants. She had no houses to keep in repair. She felt no anxiety as to whether tenants would pay promptly.

Every month, year after year, her check for $250 was brought by the postman. The arrival of her monthly check was as regular as time itself.

One day, in the month of August of a certain year, when she answered a telephone ring, Mrs. Doe heard the life underwriter saying: "Mrs. Doe, you know your husband carried special policies for the education of both the children. If possible, I should like to see you and Donald to-day about his educational fund." An appointment was made, and at the hour agreed upon Mrs. Doe and Donald, now eighteen years old, received the agent in their little parlor.

"Donald," he said, "your father expected that you would enter college this fall. He arranged to have our company begin now to pay you a semi-annual income under the educational policy which he carried for the purpose of guaranteeing you the means of getting a college education. You will receive a little more than five hundred dollars every six months for five years.

"Your father died eight years ago. By his direction our company has been accumulating interest on your \$5,000 educational policy. It was your father's purpose, if he died before you were old enough

to go to college, to have the accumulated interest on your policy paid to your mother just prior to your entering college, in order that she might have the funds to outfit you for college. The accumulated interest is enough to do this and to leave a nice sum for a savings-bank account. The total is about two thousand dollars."

And so, when the time came, Donald entered college with new clothes and the money to furnish his room nicely, and a little spending money besides. And, following the agent's advice, there was $14 00 in the savings bank earning compound interest to create a nest egg for Donald.

When Mary was eighteen years old the underwriter came again to see her and her mother. "Mary," he said, "you know your father provided life insurance to make it certain that you might receive a good education and have a certain degree of independence. He and I talked of your future when you were only two years old. (You know you were only five when he died.) He wasn't able to leave you a large income, but he took out a special policy of $15,000 for you, which

he arranged should be paid to you on an income basis beginning when you were eighteen years old. That $15,000 has been drawing compound interest at better than 4 per cent for thirteen years and now amounts to over twenty-five thousand dollars.

"Carrying out your father's orders, our company will pay you a life income, guaranteed to be over one thousand dollars a year. This will be increased by surplus interest earnings for nineteen years. I find that your first year's income will be over twelve hundred dollars, and this will gradually decrease until it reaches about one thousand dollars for the twentieth year and every year thereafter as long as you live."

The agent has passed away. Mrs. Doe is seventy-five years old, still receiving $250 a month from her husband's insurance. Donald is fifty years old and Mary is forty-five; both of them are married and have children. Mary's husband died several years ago. He had not been very successful in business and left only a small estate. But she continues to receive

the life income which her father provided for her. Though he did not anticipate that some day his insurance might aid his daughter in the support of his grandchildren, he did anticipate that an income settlement would always stand her in good stead, no matter how long she might live or what might be her situation.

VII

THE HOUSE OF PROTECTION

. . . a wise man, which built his house upon a rock.

And the rain descended and the floods came and the winds blew and beat upon that house; and it fell not; for it was founded upon a rock.

—Matthew vii: 24, 25.

VII

THE HOUSE OF PROTECTION

LET us not stop with our plan of protection incomplete—with a pile of bricks and mortar. Let us *build* The House of Protection on a firm foundation, and make it all ready for the widow and the children to move in immediately when the father is taken away. It will be snug and warm; rainproof and stormproof; theirs for life, or for as many years as the father was able to afford. What a wonderful House of Protection! Not only is the rent paid, but the grocer puts food in the larder; new clothes are hung in the closets from year to year; the coal man fills the bins in the cellar; the doctor calls and makes the sick ones well. And the bills? Why, all these things go with The House of Protection. Father paid these bills in advance with the monthly income policy.

Part II

"HOW MUCH LIFE INSURANCE SHOULD I CARRY?"

I

HOW MUCH LIFE INSURANCE SHOULD I CARRY?

PERHAPS there is no problem in securing life insurance concerning which the average man is more uncertain than that which is presented by the apparently simple question, "How much life insurance should I carry?"

What is the basis of his decision that he will insure for $5,000 or $10,000 or $50,000? Sometimes he simply estimates roughly that he can carry a certain amount of insurance without too great a sacrifice of other things. He may select $5,000 just because it is a round figure. Perhaps the underwriter has submitted a plan for $10,000 and the whole interview has centered about this amount, with the result that when the client takes favorable action he adopts the entire plan submitted, includ-

ing the amount, or he decides to take just one half of what the agent proposed.

It is true, also, that many life underwriters use no scientific method of determining the amount of insurance their clients need. There must, however, be a correct way of arriving at the proper amount of life insurance for a given situation.

The Life-insurance Yardstick

When you decide to purchase any commodity, you wish to be sure that you get just the quantity you need—no more and no less. If you are buying the material with which to make your child a dress or a coat, you know just how much you will need; for you have taken certain measurements, and the cloth is measured accordingly.

Why shouldn't the same method be used in securing life insurance? If you desire insurance to provide living expenses for your wife and children, of course you wish to secure enough to pay for their rent, groceries, meat, milk, clothing, coal, electric light and gas, doctor's and den-

tist's bills, as well as bills for books, telephone, recreation, and other essentials. If you can afford it, you will carry enough life insurance to pay the monthly bills for all these things.

How are you going to judge the amount of life insurance required for these necessities? Obviously, by estimating the cost of actual living expenses. The bills for most of the above items will be more or less regular, month in and month out. The family's bills will come in at the end of each month, just as they now come to you. If you were living on the income from an estate of $100,000, and not on your earnings, would you estimate your annual buying power by thinking, "I can spend so much, since I have $100,000?" By no means. You would say, "I have an income of $6,000 a year. I am going to save $1,500. Therefore, I have $4,500 to spend." *You would measure your annual buying power by your income.*

How easy it is to obscure the permanent buying power of capital by speaking of the capital itself instead of the income. Each $1,000 of principal, yielding 6 per

cent interest, produces $5 a month. *The permanent buying power of $1,000 at 6 per cent is only $5 a month.* Yet the average person attaches more value to a sum of $1,000 than to $5 a month, although, in terms of permanent buying power, they are one and the same thing (at 6 per cent).

The buying needs of the family should be measured in terms of income and not in terms of capital. Most men say, "I have $10,000, or $30,000, or $100,000 of insurance protection for my family." But that remark isn't any more intelligible than would be the statement, "I have bought $5 or $10 worth of cloth to make my child a coat."

You would always measure the cloth in yards, for in no other way could you tell whether you were getting enough or not; and we can understand how much protection we have for our families only if we measure the protection by monthly income. If you say, "I have $100 a month of income insurance for my family," you, or anyone else, will understand at once that you have arranged to pay bills amounting to $100 for your family every month.

The monthly income is the *yardstick* of life-insurance protection. Capital does not measure the family's ability to pay their bills; but the monthly income does.

I Have $10,000 of Life Insurance

Suppose a client tells a life underwriter that he has all the insurance he needs—say, $10,000. It is the agent's duty to get out his *yardstick* and measure his client's insurance protection so that he will understand clearly what provision he has made. The agent should not criticize his client because he carries only $10,000 of insurance, for the client is using a false measure and may not realize just what the $10,000 will do. But suppose the agent should say, "Mr. Doe, you have made a good beginning on your insurance program; $10,000 at 6 per cent will yield $600 a year, or $50 a month. That will pay the rent. Let us call that policy your family's 'rent policy.' You will want to provide for the groceries, too, of course; that means at least another $50 a month, another $10,000 of insur-

ance. Perhaps, an additional $50 a month ($10,000 of insurance) will furnish clothing and other personal necessities; and it will probably require $50 a month more to pay for heat and light, doctor's and dentist's bills, elementary education, vacation, recreation, and many other expenses." In this way the buyer would see his present insurance in its true proportions, and would also quickly understand how much insurance he should have.

Everything we purchase has its proper standard of measure. We measure butter by the pound, coal by the ton, railroad transportation by miles or kilometers, gasoline by the gallon. *Our insurance, or our insurance needs, should always be measured by the insurance yardstick, the monthly income, or, still better, by the estimated amount of monthly bills for specific items of expense.*

Using the Budget to Measure Protection

Measuring life-insurance needs by the estimated amount of the monthly bills may be called the budget method. It

consists in determining the amount of money the family will require for each of the various items of living expense. Every man and woman should adopt the budget system in fixing his or her own living expenses and in determining what he or she can save regularly out of his earnings. The budget is commonly used in business. *The use of the budget in fixing one's personal expenses and margin of savings is simply putting personal finances on a business basis.*

In undertaking a new business one of the first and most important things to do is to estimate expenses. This is done by itemizing the materials or stock that will have to be bought, the labor that will be required, and the overhead, and setting down the cost of each item. With such an estimate or budget before you, it is not difficult to determine the amount of money necessary to start the business and the monthly amount that will be needed for overhead charges, etc.

The same method of determining the minimum income needs of one's family will make it easy to fix the amount of insurance necessary to give the family

life-insurance protection. It is easy for a husband or father to make a list of the actual items of expense which his family will be obliged to meet, if they are to live in reasonable comfort.

To use an old illustration, suppose you were going away on a long business trip for six months or a year, say to South America or around the world, and that your family were going to stay at home. What provision would you make for their living expenses during your absence? You would probably first make a list of your average monthly bills or total up your last year's expenses. Then, if one of the children expected to enter college or any other special expense had to be met during your absence, you would add this to the amount estimated for regular living expenses. You would deposit in the bank enough to cover the family's estimated expenses while you were away, or you would arrange to have a certain sum, based on the budget, deposited to your wife's account every month.

The same method is the only one by which we can find the correct answer to the

question, "How much life insurance do I need for the protection of my family?"

Provision for Paying Bills as They Fall Due

Life-insurance protection is provision for the family's reasonable expenses in such a way that the correct amount of money is payable to the family at the time that this money is needed for specific expenses.

When a man dies, for example, there is usually a large amount of money to be paid out at once. He has, as a rule, been seriously ill for a considerable time. Regular monthly bills may have accumulated for two or three months, especially if his credit has been good. His funeral expenses amount to a large sum; for the family rarely spares any cost, often spending much more than they can afford.

Then there is the cost of administering the estate. The Federal and state inheritance taxes require cash, and very few estates contain enough cash in bank for such purposes. There are only two ways in which one may be sure that all these obligations can be liquidated without sell-

ing valuable property *at the prevailing market price, good or bad—viz.:* (1) to carry constantly an excessive cash balance in the bank, which the good business man won't do and the average man can't do; and (2) to provide an ample cash payment of life insurance, available immediately, at death without any complication, difficulty, or sacrifices of property value.

Insurance of $500 to $100,000, or more, depending on the requirements of the individual case, should be payable in cash to meet the obligations due immediately after death.

These first bills which the widow must pay are really her husband's last bills. A month later she receives her first bills—the first bills of her own administration. There should be funds due at that time to pay these bills. At the end of the second month she will have a second batch of bills; and she should have another income payment with which to pay them. Every month, as long as she lives, there will be bills to pay; and every month, if possible, as long as she lives, the widow should have an income check, punctual, regular, guaranteed.

Later the time will come, perhaps, when one of the children is to enter college (or a business or professional school). For the next several years the family's expenses will be increased. A special income should begin when the son or daughter enters college, and continue for the four years, or longer in case of professional education. After two or three years, a second son or daughter might be ready for college. Again there should be an increase in income for four or five years to cover the further increase in expenses.

Isn't it clear that the husband or father who seeks an answer to the question, "How much life insurance do I need?" will find a quick and correct answer by making up a budget which will fairly represent the minimum expenses his family will have to meet if they are to enjoy reasonable comfort and if the children are to be properly educated?

United States Treasury Home Budgets

It will be helpful to examine specimen family budgets. Below are several bud-

gets reproduced from an article by Benjamin R. Andrews of Columbia University, which appeared in the "Thrift" number of the *Annals of the American Academy of Political and Social Science* (January, 1920). Mr. Andrews says: "The following standard budgets were recently prepared under the general direction of the present writer for the Savings Division of the United States Treasury Department. The chief credit for them is due to Mrs. Alice O. Norton, editor of the *Journal of Home Economics*, who was ably assisted by Miss S. Maria Elliott of Simmons College. Acknowledgment should also be given for the advice and suggestions of many of the foremost home economists in the United States."

A number of persons to whom the author has shown these budgets have said they doubted if the items of rent were large enough. It must be noted, however, that *these budgets have been prepared on a thrift basis.* It is probably true that most families would not be satisfied with the allotments made for rent; but *it is also true that most American families are*

not economizing as they should. In order to save substantial amounts it is necessary to make sacrifices.

No. 1—$1,200 A YEAR—$100 A MONTH

	NUMBER IN THE FAMILY			
	Two	Three	Four	Five
Savings	$10	$7	$5	$3
Rent	16	16	16	16
Food	27	34	41	48
Clothing	13	14	15	15
Housekeeping expenses	10	9	8	7
Churches, charities	6	5	3	1
Health, recreation, education	10	8	6	5
Personal, miscellaneous	8	7	6	5
Total for month	$100	$100	$100	$100

No. 2—$1,800 A YEAR—$150 A MONTH

	NUMBER IN THE FAMILY			
	Two	Three	Four	Five
Savings	$27	$21	$15	$10
Rent	20	20	22	22
Food	37	44	51	58
Clothing	20	20	21	22
Housekeeping expenses	11	12	12	12
Churches, charities	10	9	8	7
Health, recreation, education	12	12	10	10
Personal, miscellaneous	13	12	11	9
Total for month	$150	$150	$150	$150

No. 3—$2,400 A YEAR—$200 A MONTH

	NUMBER IN THE FAMILY			
	Two	Three	Four	Five
Savings	$48	$40	$31	$21
Taxes (Federal Income)	2	1	—	—
Rent	25	25	27	27
Food	40	48	56	64
Clothing	22	25	28	30
Housekeeping expenses	18	20	20	20
Churches, charities	15	12	11	11
Health, recreation, education	14	14	13	13
Personal, miscellaneous	16	15	14	14
Total for month	$200	$200	$200	$200

No. 4—$3,000 a Year—$250 a Month

	Number in the Family			
	Two	Three	Four	Five
Savings	$65	$53	$40	$30
Taxes (Federal Income)	5	4	3	2
Rent	30	30	35	35
Food	40	48	56	64
Clothing	30	33	36	39
Housekeeping expenses	25	30	32	32
Church, charities	19	17	16	16
Health, recreation, education	18	18	16	16
Personal, miscellaneous	18	17	16	16
Total for month	$250	$250	$250	$250

No. 5—$5,000 a Year—$416.66 a Month

	Number in the Family			
	Two	Three	Four	Five
Savings	$125.66	$105.66	$90.66	$76.66
Taxes (Federal Income)	15.00	14.00	13.00	12.00
Rent	50.00	50.00	60.00	60.00
Food	45.00	55.00	65.00	75.00
Clothing	45.00	50.00	55.00	60.00
Housekeeping expenses	50.00	60.00	63.00	65.00
Church, charities	36.00	33.00	27.00	25.00
Health, recreation, education	25.00	25.00	22.00	22.00
Personal, miscellaneous	25.00	24.00	21.00	21.00
Total for month	$416.66	$416.66	$416.66	$416.66

How to Use Specimen Budgets

These budgets may be helpful in two ways:

(1) If you are considering insurance and think it may be difficult to finance the premium deposits, the budgets may assist you in apportioning your expenses so that you can save enough to adopt a substantial life-insurance program. A

profitable evening may be spent in analyzing the budget which is nearest to your own income and comparing these items for various expenditures with what you are now spending. If your income exceeds $5,000, budget No. 5 will serve as a general pattern by which you may make up a budget of your own.

(2) If you are trying to decide the amount of a life-insurance income for your family, it will help you greatly to study these budgets. Begin with Budget No. 1 and see if you think that there are any unnecessary items listed, or that the amounts are too large. If you believe that your family could not live comfortably on Budget No. 1, consider the others until you work out a budget which you think would provide reasonably for your family. Disregard the savings item, for you will hardly plan to have them save anything out of the insurance income. But you will probably wish to increase the allowance for rent. For example, under Budget No. 1, if we omit the savings item and increase the rent to $25, the total of the budgets will be $99, $102,

$104, and $106, respectively, for families of two, three, four, or five persons.

Budget No. 1 may be considered the *minimum* income required by families who desire to live in wholesome surroundings in the cities. A slightly smaller minimum might possibly suffice in places where rents and food are lower.

The Smaller Insurance Income

These budgets also help us to see clearly the value of small insurance incomes. For example, a father desires to guarantee to his family an income of $100 a month, but his means won't permit. He can, however, provide $50 a month.

If we increase the rent to $25 (Budget No. 1), we see that the total for rent and food (three persons) is $59 a month. The $50-a-month insurance income will almost pay for groceries and rent, according to this budget. If the father must face the fact that his wife and children will be obliged to earn something, what a satisfaction it will be to know that, at any rate, it will be necessary for them to earn

only \$50 a month instead of \$100 a month; or, to put it another way, that instead of being forced to live on whatever they can earn—perhaps \$50, \$60, or \$75 a month—*they will have \$100 a month, even if they can earn only \$50.*

The same idea holds good for smaller incomes. An insurance income of \$20 or \$25 a month will provide the minimum for rent. If this is all the husband or father can do for his family, it is well worth doing. Rent is the first fundamental need to be provided. With the rent guaranteed, the mother's problem of keeping her children together and making a home for them will be greatly simplified by the monthly-rent policy. The amount to be earned by herself and the children will thus be materially reduced.

Short-term Incomes

Sometimes a man finds that even by making heroic efforts to make his life-insurance savings as large as possible, he cannot secure enough to provide a suffi-

cient life income for his wife, say, $200 a month. His children are ten and twelve years old. He finds he can provide a life income of $100 a month for his wife and an additional income of $100 a month for ten years for the support of the children. Even if he dies immediately, his wife will have an income of $200 a month until the children are twenty and twenty-two years old, and, thereafter, a life income of $100 a month. Likewise, a total income of $100 a month could be provided to run until his children were grown, with $50 or $60 a month continued permanently for his wife. An almost endless variety of income-insurance combinations makes it possible for the underwriter to effect a practical adjustment between the client's needs and his ability to save for his insurance premiums.

No matter whether you are earning $2,000 or $50,000 a year, you will find it most helpful to make up a minimum budget for your family's insurance needs. It will give you a different idea of your insurance requirements from any you

have ever had before. And if you find you can't provide the amount of insurance income your family will need, the budget will help you to see just what the amount which you *can* afford will accomplish.

THE END